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Macroeconomic policy questions: international financial system and development

Report of the Second Committee*

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I. Introduction

1. The Second Committee held a substantive debate on agenda item 83 (b) (see A/59/481, para. 2). Action on sub-item (b) was taken at the 17th and 40th meetings, on 20 October and 16 December 2004. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/59/SR.17 and 40).

II. Consideration of draft resolutions A/C.2/59/L.2 and A/C.2/59/L.70

2. At the 17th meeting, on 20 October, the representative of Qatar, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced a draft resolution entitled "International financial system and development" (A/C.2/59/L.2) which read:

> "*The General Assembly*,
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> "*Recalling* its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled 'Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity', as well as its resolutions 57/241 of 20 December 2002 and 58/202 of 23 December 2003,

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"*Recalling also* the United Nations Millennium Declaration and its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey Consensus of the International Conference on Financing for Development and the Plan of Implementation of the World Summit on Sustainable Development ('Johannesburg Plan of Implementation'),

"*Emphasizing* that the international financial system should further sustain economic growth and support sustainable development and poverty eradication, while allowing for the coherent mobilization of all sources of financing for development, including the mobilization of domestic resources, international investment flows, official development assistance and external debt relief, and an open, equitable, rule-based, predictable and non-discriminatory global trading and financial system,

"*Reaffirming* the commitment to create an enabling environment at both the national and international levels that is conducive to development and to the eradication of poverty through, inter alia, good governance with each country and, at the international level, transparency and accountability in the financial, monetary and trading systems, including in the private sector and transnational corporations,

"*Recognizing* the urgent need to enhance the coherence, governance and consistency of the international monetary, financial and trading systems, and the importance of ensuring their openness, fairness and inclusiveness in order to complement national development efforts to ensure sustained economic growth and the achievement of the internationally agreed development goals, including those contained in the United Nations Millennium Declaration,

"*Reiterating* the need to strengthen the leadership role of the United Nations in promoting development,

"1. *Takes note* of the reports of the Secretary-General on the international financial system and development and on innovative sources of financing for development;

"2. *Notes* that the global economic recovery is still fragile and should be strengthened and sustained, and stresses the importance of cooperative efforts by all countries and institutions to cope with risks of financial instability and to ensure a strong and steady recovery, including regional monetary cooperation, as a means of achieving greater financial stability;

"3. *Emphasizes* the need for enhanced and predictable financial flows to developing countries, and in this regard expresses concern with continued net outward transfer of financial resources from developing to developed countries, underscores the need for appropriate measures at the national and international levels to address this issue, and notes the efforts that have been made thus far to this end and of the fact that for some developing countries those transfers, at the present time, indicate positive developments in the trade balance, which are required, inter alia, for debt repayment and which allow for the purchase of foreign assets;

"4. *Underlines* the importance of adopting effective measures, including new financial mechanisms, to support the efforts of developing countries to achieve sustained economic growth, sustainable development,

poverty reduction and the strengthening of their democratic systems, and reaffirms that each country has primary responsibility for its own economic and social development and that national policies have the leading role in the development process;

"5. *Also underlines* the importance of promoting international financial stability and sustainable growth, and welcomes the efforts undertaken to this end by the International Monetary Fund and the Financial Stability Forum, as well as the consideration by the International Monetary and Financial Committee of ways to sharpen tools designed to promote international financial stability and enhance crisis prevention, including through an even-handed implementation of surveillance and a sharpening of surveillance on capital markets and systemically and regionally important countries, with a view, inter alia, to the early identification of debt-related systemic vulnerabilities, surveillance and enhancement of its pro-growth orientation, the better coordination of multilateral and regional surveillance, the fostering of appropriate policy responses, the provision of adequate precautionary support to deal with external crises and further improvements in the transparency of macroeconomic data and statistical information on international capital flows;

"6. *Reiterates* in this regard that measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial flows are important and must be considered;

"7. *Notes* the impact of financial crises and risks of contagion to developing countries, regardless of their size, and underlines the need to ensure that the international financial institutions, including the International Monetary Fund, have a suitable array of financial facilities and resources to respond in a timely and appropriate way to such crises that includes counter-cyclical policies;

"8. *Also notes* that building an environment that encourages investment by the domestic business sector requires policies that are able to offset the fluctuations in growth and employment caused by external shocks, and thus encourages the International Monetary Fund and the World Bank to incorporate increased policy flexibility into structural adjustment programmes to accommodate appropriate counter-cyclical policies;

"9. *Stresses* the need to advance the efforts to reform the international financial architecture, and in this regard encourages the International Monetary Fund and the World Bank to continue examining the issues of the voice and effective participation of developing countries, through the implementation of the principles of full and equal participation in their respective decision-making processes, and stresses that the Bretton Woods institutions should take into account the specific conditions of developing countries in determining their economic policies;

"10. *Welcomes* the ongoing work of the International Monetary Fund on quotas, and notes the conclusion of the Fund's Twelfth General Review of Quotas, the report on which indicated the adequacy of the current level of Fund resources and the intention of the Executive Board, during the period of the Thirteenth General Review, to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that

reflects developments in the world economy and to consider measures to strengthen the governance of the Fund;

"11. *Also welcomes* the ongoing work of the World Bank on aid effectiveness and financing modalities to complement increased aid flows and commitments, including innovative mechanisms, and calls for an institutional analysis by the Bank and the International Monetary Fund of such initiatives as the International Finance Facility, and those considered by the Technical Group in its report to the World Leaders Summit on Action against Hunger and Poverty;

"12. *Emphasizes* that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes, and underscores the need to ensure their implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion;

"13. *Invites* the multilateral and regional development banks and development funds to continue to play a vital role in serving the development needs of developing countries, including through coordinated action, as appropriate, and stresses that strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, thus enhancing their ownership and overall efficiency, and are an essential source of knowledge and expertise for their developing country members;

"14. *Calls* for the continued effort of the multilateral financial institutions, in providing policy advice and financial support to member countries, to work on the basis of nationally owned reform and development strategies, to pay due regard to the special needs and implementing capacities of developing countries and to minimize the negative impacts of the adjustment programmes on the vulnerable segments of society, while taking into account the importance of gender-sensitive employment and poverty eradication policies and strategies;

"15. *Stresses* the need for structural reforms to strengthen corporate governance, accounting and auditing, in particular when inadequate policies can have systemic consequences;

"16. *Reiterates* the importance of the orderly resolution of sovereign debt crises as well as greater predictability and order to the resolution of sovereign debt, including a voluntary code of conduct by sovereign debtors and private creditors, as well as other mechanisms under review, and notes the increasing voluntary use of collective action clauses in international sovereign bonds;

"17. *Encourages* the efforts, including those of the Bretton Woods institutions, to improve the assessment of debt sustainability in low and middle-income countries through, inter alia, the development of better tools to deal with exogenous shocks and the need to take country-specific factors into account;

"18. *Stresses* the importance of continuation of work on crisis prevention and resolution and encourages, in this regard, the creation of more effective

surveillance, backed by lending facilities offering to emerging markets some form of contingent insurance that can be mobilized quickly and on a sufficiently large scale if a need arises;

"19. *Notes* the impact of financial crisis or risk of contagion in developing countries, regardless of their size, and in this regard underlines the need to ensure that the international financial institutions have a suitable array of financial facilities and resources to respond in a timely and appropriate manner in accordance with their policies;

"20. *Invites* further consideration of proposals on innovative public and private mechanisms for financing development on possible innovative sources of finance, taking note of the proposal to use special drawing rights allocations for development purposes, bearing in mind that any assessment of special drawing rights allocations must respect the Articles of Agreement of the International Monetary Fund and the established rules of procedure of the Fund, which requires taking into account the global need for liquidity at the international level;

"21. *Requests* the Secretary-General to work jointly with the international financial institutions to develop further analytical studies to assist in identifying policies that includes macroeconomic variables in favour of economic growth and sustainability, and to report to the General Assembly at its sixtieth session on the implementation of the present resolution;

"22. *Decides* to include in the provisional agenda of its sixtieth session, under the item entitled 'Macroeconomic policy questions', the sub-item entitled 'International financial system and development'."

3. At the 40th meeting, on 14 December, the Vice-Chairman of the Committee, Majdi Ramadan (Lebanon), introduced a draft resolution entitled "International financial system and development" (A/C.2/59/L.70), which he submitted on the basis of informal consultations held on draft resolution A/C.2/59/L.2. In introducing the draft resolution, the Vice-Chairman orally corrected operative paragraph 16 by replacing the words "inter alia" with the word "including".

4. At the same meeting, the Committee adopted draft resolution A/C.2/59/L.70, as orally corrected (see para. 6).

5. In light of the adoption of draft resolution A/C.2/59/L.70, draft resolution A/C.2/59/L.2 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

6. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

International financial system and development

The General Assembly,

Recalling its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled "Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity", as well as its resolutions 57/241 of 20 December 2002 and 58/202 of 23 December 2003,

Recalling also the United Nations Millennium Declaration[1] and its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey Consensus of the International Conference on Financing for Development,[2] and the Plan of Implementation of the World Summit on Sustainable Development ("Johannesburg Plan of Implementation"),[3]

Emphasizing that the international financial system should further sustain economic growth and support sustainable development and poverty eradication, while allowing for the coherent mobilization of all sources of financing for development, including the mobilization of domestic resources, international investment flows, official development assistance and external debt relief, and an open, equitable, rule-based, predictable and non-discriminatory global trading system,

Reiterating that success in meeting the objectives of development and poverty eradication depends on good governance within each country and at the international level, and stressing that sound economic policies, solid democratic institutions responsive to the needs of the people and improved infrastructure are the basis for sustained economic growth, poverty eradication and employment creation,

Recognizing that an enabling economic environment should, inter alia, foster a dynamic and well-functioning business sector and include efforts to further promote good corporate and public sector governance, to combat corruption in the private and public sectors, and to promote the strengthening of and respect for the rule of law,

Encouraging further progress on the issue of participation of developing countries in international economic decision-making and norm-setting processes, including those in the Bretton Woods institutions and other economic and financial institutions and ad hoc groupings, while welcoming the steps that have been taken

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[1] See resolution 55/2.

[2] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[3] *Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002* (United Nations publication, Sales No. E.03.II.A.1 and corrigendum), chap. I, resolution 2, annex.

with a view to strengthening the capacity of developing countries to participate effectively in the international financial institutions,

Recognizing the urgent need to enhance the coherence, governance and consistency of the international monetary, financial and trading systems, and the importance of ensuring their openness, fairness and inclusiveness in order to complement national development efforts to ensure sustained economic growth and the achievement of the internationally agreed development goals, including those contained in the United Nations Millennium Declaration,

Emphasizing the need for additional stable and predictable financing to help developing countries undertake investment plans to achieve internationally agreed development goals,

Welcoming the initiative launched by the Presidents of Brazil, Chile and France and the Prime Minister of Spain, with the support of the Secretary-General, to convene in New York on 20 September 2004 the Summit of World Leaders for Action against Hunger and Poverty,

Taking note of the note by the Secretary-General on innovative sources of financing for development,[4]

Reiterating the need to strengthen the leadership role of the United Nations in promoting development,

1. *Takes note* of the report of the Secretary-General on the international financial system and development;[5]

2. *Notes* that the global economy is recovering, supported by growth in some developing countries, and that economic growth should be further strengthened and sustained, and stresses the importance of cooperative efforts by all countries and institutions to cope with risks of financial instability and to ensure a strong and steady recovery, as a means of achieving greater financial stability, and in this regard, acknowledges recent efforts at regional monetary cooperation;

3. *Also notes* the continued net outward transfer of financial resources from developing to developed countries, acknowledging the outward investment from some developing countries as an indication of their integration into the world economy, and underscores the need for appropriate measures at the national and international levels to address this issue, and further notes the efforts that have been made thus far to this end and takes note of the fact that, for some developing countries, those transfers, at the present time, indicate positive developments in the trade balance, which are required, inter alia, for debt repayment and allow for the purchase of foreign assets;

4. *Underlines* the importance of promoting international financial stability and sustainable growth, and welcomes the efforts undertaken to this end by the International Monetary Fund and the Financial Stability Forum, as well as the consideration by the International Monetary and Financial Committee of ways to sharpen tools designed to promote international financial stability and enhance crisis prevention, inter alia, through an even-handed implementation of surveillance, including at the regional level, and a sharpening of surveillance of capital markets

[4] A/59/272.

[5] A/59/218 and Corr.1.

and systemically and regionally important countries, with a view, inter alia, to the early identification of problems and risks, integrating debt sustainability analysis, the fostering of appropriate policy responses, the possible provision of financing and other instruments designed to prevent the emergence or spread of financial crises, and further improvements in the transparency of macroeconomic data and statistical information on international capital flows;

5. *Also underlines* the importance of efforts at the national level to increase resilience to financial risk and stresses in this regard the importance of better assessment of a country's debt burden and its ability to service that debt in both crisis prevention and resolution and welcomes the ongoing work of the International Monetary Fund on assessing debt sustainability;

6. *Reiterates* in this regard that measures to mitigate the impact of excessive volatility of short-term capital flows and to improve transparency of and information about financial flows are important and must be considered;

7. *Notes* the impact of financial crisis or risk of contagion in developing countries and countries with economies in transition, regardless of their size, and in this regard, welcomes the efforts of the international financial institutions, in their support to countries, to continuously adapt their array of financial facilities and resources, drawing on a full range of policies, taking into account the effects of economic cycles, as and where appropriate, having due regard to sound fiscal management and the specific circumstances of each case, so as to prevent and respond to such crises in a timely and appropriate way;

8. *Stresses* the importance of strong domestic institutions in promoting business activities and financial stability for the achievement of growth and development, inter alia, through sound macroeconomic policies and policies aimed at strengthening the regulatory systems of the corporate, financial and banking sectors, and also stresses that international cooperation initiatives in those areas should encourage flows of capital to developing countries;

9. *Notes* that building an environment that encourages development of the domestic business sector requires that countries undertake appropriate policies to minimize the risk of and respond to external shocks and their impact, inter alia, on growth and employment, and encourages the International Monetary Fund and the World Bank to take into account the specific conditions of developing countries in determining their guidance to them in this area;

10. *Stresses* the importance of advancing in respect of the efforts to reform the international financial architecture, as envisaged in the Monterrey Consensus of the International Conference on Financing for Development,[2] and in this regard, encourages the International Monetary Fund and the World Bank to continue examining the issues of the voice and effective participation of developing countries and countries with economies in transition in their decision-making processes;

11. *Welcomes* the ongoing work of the International Monetary Fund on quotas, and notes the conclusion of the Fund's Twelfth General Review of Quotas, the report on which indicated the adequacy of the current level of Fund resources and the intention of the Executive Board, during the period of the Thirteenth General Review, to monitor closely and assess the adequacy of Fund resources, to consider measures to achieve a distribution of quotas that reflects developments in

the world economy and to consider measures to strengthen the governance of the Fund;

12. *Notes* the ongoing analysis by the World Bank and the International Monetary Fund, as mentioned in the communiqué of the Development Committee of 2 October 2004,[6] of proposals on financing modalities to complement increased aid flows and commitments with innovative mechanisms, and their technical feasibility;

13. *Looks forward* to further consideration of the subject of possible innovative and additional sources of financing for development from all sources, public and private, domestic and external, taking into account international efforts, contributions and discussions, within the overall framework of the follow-up of the International Conference on Financing for Development;

14. *Reaffirms* the need to adopt policies and undertake measures to reduce the cost of the transfer of migrant remittances to developing countries and welcomes efforts of Governments and stakeholders in this regard;

15. *Emphasizes* that it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes, and underscores the need to ensure their implementation, on a voluntary and progressive basis, as a contribution to reducing vulnerability to financial crisis and contagion, and notes that more than one hundred countries participated or agreed to participate in a joint World Bank-International Monetary Fund financial sector assessment programme;[7]

16. *Invites* the multilateral and regional development banks and development funds to continue to play a vital role in serving the development needs of developing countries and countries with economies in transition, including through coordinated action, as appropriate, and stresses that strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, thus enhancing their ownership and overall efficiency, and are an essential source of knowledge and expertise for their developing-country members;

17. *Calls for* the continued effort of the multilateral financial institutions, in providing policy advice, technical assistance and financial support to member countries, to work on the basis of nationally owned reform and development strategies, to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition, and to minimize the negative impacts of the adjustment programmes on the vulnerable segments of society, while taking into account the importance of gender-sensitive employment and poverty eradication policies and strategies;

18. *Stresses* the need to continuously improve standards of corporate and public sector governance, including accounting, auditing and measures to ensure transparency, noting the disruptive effects of inadequate policies;

19. *Acknowledges* the ongoing work towards a more comprehensive approach to sovereign debt restructurings, supports the increasing inclusion of

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[6] See *IMF Survey*, vol. 33, No. 18 (11 October 2004), pp. 287-288. Complete text is also available from http://sitesources.worldbank.org/DEVCOMMINT/NewsAndEvents/20264401/Sept_2004_DC_Communique_E.pdf.

[7] See A/59/218 and Corr.1, para. 15.

collective action clauses in international bond issuing, and strongly encourages leading bond issuing countries and the private sector to make substantial progress on the preparation of an effective code of conduct, bearing in mind the need to not preclude emergency financing in times of crisis, to promote fair burden-sharing and minimize moral hazard, which will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner;

20. *Welcomes* the ongoing efforts, including those of the Bretton Woods institutions, to improve the assessment of debt sustainability in low- and middle-income countries through, inter alia, the development of better tools to deal with exogenous shocks and the need to take country-specific factors into account;

21. *Requests* the Secretary-General to report to the General Assembly at its sixtieth session on the implementation of the present resolution;

22. *Decides* to include in the provisional agenda of its sixtieth session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "International financial system and development".